

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
Dollars in millions except per share amounts

**Condensed Consolidating Statements of Income**  
**For the Twelve Months Ended December 31, 2000**

	Parent	PAC	PacBell	SWBell	Other	Adjs.	Total
Total operating revenues	\$ —	\$11,978	\$10,356	\$11,580	\$29,121	\$(11,559)	\$51,476
Total operating expenses	(1,119)	7,974	7,437	8,636	26,445	(8,640)	40,733
Operating income	1,119	4,004	2,919	2,944	2,676	(2,919)	10,743
Interest expense	504	434	391	383	1,280	(1,400)	1,592
Equity in net income of affiliates	7,417	16	—	—	945	(7,481)	897
Royalty income (expense)	460	(415)	(407)	(460)	415	407	—
Other income (expense) – net	(192)	9	2	10	3,961	(950)	2,840
Income before income taxes	8,300	3,180	2,123	2,111	6,717	(9,543)	12,888
Income taxes	333	1,243	847	778	2,567	(847)	4,921
Net Income	\$ 7,967	\$ 1,937	\$ 1,276	\$ 1,333	\$ 4,150	\$ (8,696)	\$ 7,967

**Condensed Consolidating Statements of Income**  
**For the Twelve Months Ended December 31, 1999**

	Parent	PAC	PacBell	SWBell	Other	Adjs.	Total
Total operating revenues	\$ —	\$11,727	\$9,718	\$11,173	\$27,558	\$(10,645)	\$49,531
Total operating expenses	(228)	8,861	7,459	8,358	21,869	(8,386)	37,933
Operating income	228	2,866	2,259	2,815	5,689	(2,259)	11,598
Interest expense	206	455	388	384	1,327	(1,330)	1,430
Equity in net income of affiliates	8,137	—	—	—	937	(8,162)	912
Other income (expense) – net	113	100	42	6	471	(959)	(227)
Income before income taxes	8,272	2,511	1,913	2,437	5,770	(10,050)	10,853
Income taxes	106	990	752	896	2,288	(752)	4,280
Income before extraordinary items and cumulative effect of accounting change	8,166	1,521	1,161	1,541	3,482	(9,298)	6,573
Extraordinary items	—	—	—	—	1,379	—	1,379
Cumulative effect of accounting change	(7)	(218)	(1,010)	(274)	706	1,010	207
Net Income	\$8,159	\$ 1,303	\$ 151	\$ 1,267	\$ 5,567	\$ (8,288)	\$ 8,159

**Condensed Consolidating Statements of Income**  
**For the Twelve Months Ended December 31, 1998**

	Parent	PAC	PacBell	SWBell	Other	Adjs.	Total
Total operating revenues	\$ —	\$11,288	\$9,406	\$10,752	\$25,189	\$(10,394)	\$46,241
Total operating expenses	(135)	8,613	7,107	7,958	19,570	(8,095)	35,018
Operating income	135	2,675	2,299	2,794	5,619	(2,299)	11,223
Interest expense	359	504	426	374	1,107	(1,165)	1,605
Equity in net income of affiliates	7,371	—	—	—	616	(7,374)	613
Other income (expense) – net	624	(2)	(1)	(10)	2,011	(738)	1,884
Income before income taxes	7,771	2,169	1,872	2,410	7,139	(9,246)	12,115
Income taxes	81	896	734	883	2,520	(734)	4,380
Income before extraordinary items and cumulative effect of accounting change	7,690	1,273	1,138	1,527	4,619	(8,512)	7,735
Extraordinary items	—	(62)	(61)	—	2	61	(60)
Cumulative effect of accounting change	—	—	—	—	15	—	15
Net Income	\$7,690	\$ 1,211	\$1,077	\$ 1,527	\$ 4,636	\$ (8,451)	\$ 7,690

**Condensed Consolidating Balance Sheets**  
December 31, 2000

	Parent	PAC	PacBell	SWBell	Other	Adjs.	Total
Cash and cash equivalents	\$ 436	\$ 5	\$ 9	\$ 52	\$ 150	\$ (9)	\$ 643
Accounts receivable – net	9,503	2,838	2,219	2,111	8,662	(15,189)	10,144
Other current assets	2,195	480	474	697	9,057	(474)	12,429
Total current assets	12,134	3,323	2,702	2,860	17,869	(15,672)	23,216
Property, plant and equipment – net	138	13,461	13,028	14,984	18,612	(13,028)	47,195
Intangible assets – net	—	—	—	—	5,475	—	5,475
Investments in equity affiliates	30,072	611	—	—	14,952	(33,257)	12,378
Other assets	2,186	2,136	2,061	272	10,643	(6,911)	10,387
Total Assets	\$44,530	\$19,531	\$17,791	\$18,116	\$67,551	\$(68,868)	\$98,651
Debt maturing within one year	\$ 8,918	\$ 1,214	\$ 1,776	\$ 2,648	\$ 4,157	\$ (8,243)	\$10,470
Other current liabilities	2,527	3,906	3,794	4,112	15,845	(10,297)	19,887
Total current liabilities	11,445	5,120	5,570	6,760	20,002	(18,540)	30,357
Long-term debt	568	4,353	4,293	3,976	11,445	(9,143)	15,492
Postemployment benefit obligation	83	3,000	2,817	2,993	3,691	(2,817)	9,767
Other noncurrent liabilities	1,971	1,686	1,536	1,314	6,601	(1,536)	11,572
Corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts	—	1,000	—	—	—	—	1,000
Total shareowners' equity	30,463	4,372	3,575	3,073	25,812	(36,832)	30,463
Total Liabilities and Shareowners' Equity	\$44,530	\$19,531	\$17,791	\$18,116	\$67,551	\$(68,868)	\$98,651

**Condensed Consolidating Balance Sheets**  
December 31, 1999

	Parent	PAC	PacBell	SWBell	Other	Adjs.	Total
Cash and cash equivalents	\$ 100	\$ 13	\$ 11	\$ 49	\$ 333	\$ (11)	\$ 495
Accounts receivable – net	8,012	2,538	1,929	1,913	11,678	(16,692)	9,378
Other current assets	224	471	378	491	871	(378)	2,057
Total current assets	8,336	3,022	2,318	2,453	12,882	(17,081)	11,930
Property, plant and equipment – net	89	12,628	12,213	13,958	19,896	(12,213)	46,571
Intangible assets – net	—	824	—	—	5,972	—	6,796
Investments in equity affiliates	23,461	199	—	—	13,125	(26,137)	10,648
Other assets	2,203	1,683	1,407	20	8,563	(6,606)	7,270
Total Assets	\$34,089	\$18,356	\$15,938	\$16,431	\$60,438	\$(62,037)	\$83,215
Debt maturing within one year	\$ 3,364	\$ 1,869	\$ 1,674	\$ 2,086	\$ 9,180	\$(14,799)	\$ 3,374
Other current liabilities	1,347	3,075	2,865	3,041	10,114	(4,503)	15,939
Total current liabilities	4,711	4,944	4,539	5,127	19,294	(19,302)	19,313
Long-term debt	685	4,551	4,491	4,211	13,201	(9,664)	17,475
Postemployment benefit obligation	111	2,888	2,703	3,049	3,564	(2,703)	9,612
Other noncurrent liabilities	1,856	1,845	1,486	1,143	4,271	(1,512)	9,089
Corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts	—	1,000	—	—	—	—	1,000
Total shareowners' equity	26,726	3,128	2,719	2,901	20,108	(28,856)	26,726
Total Liabilities and Shareowners' Equity	\$34,089	\$18,356	\$15,938	\$16,431	\$60,438	\$(62,037)	\$83,215

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
Dollars in millions except per share amounts

**Condensed Consolidating Statements of Cash Flows**  
**Twelve Months Ended December 31, 2000**

	Parent	PAC	PacBell	SWBell	Other	Adjs.	Total
Net cash from operating activities	\$ 4,008	\$ 4,306	\$ 3,196	\$ 4,152	\$ 3,914	\$(5,277)	\$ 14,299
Net cash from investing activities	(4,309)	(2,797)	(2,679)	(3,630)	(4,081)	3,093	(14,403)
Net cash from financing activities	637	(1,517)	(519)	(519)	(16)	2,186	252
Net Increase (Decrease) in Cash	\$ 336	\$ (8)	\$ (2)	\$ 3	\$ (183)	\$ 2	\$ 148

**Condensed Consolidating Statements of Cash Flows**  
**Twelve Months Ended December 31, 1999**

	Parent	PAC	PacBell	SWBell	Other	Adjs.	Total
Net cash from operating activities	\$ 2,337	\$ 3,212	\$ 3,233	\$ 4,393	\$ 9,639	\$(6,236)	\$ 16,578
Net cash from investing activities	(268)	(2,787)	(2,437)	(2,882)	(4,447)	2,244	(10,577)
Net cash from financing activities	(2,283)	(431)	(799)	(1,522)	(5,065)	3,995	(6,105)
Net Increase (Decrease) in Cash	\$ (214)	\$ (6)	\$ (3)	\$ (11)	\$ 127	\$ 3	\$ (104)

**Condensed Consolidating Statements of Cash Flows**  
**Twelve Months Ended December 31, 1998**

	Parent	PAC	PacBell	SWBell	Other	Adjs.	Total
Net cash from operating activities	\$ 1,707	\$ 3,023	\$ 2,443	\$ 3,126	\$ 4,589	\$(1,907)	\$ 12,981
Net cash from investing activities	563	(2,420)	(2,140)	(2,566)	(5,029)	2,423	(9,169)
Net cash from financing activities	(2,166)	(631)	(332)	(579)	333	(487)	(3,862)
Net Increase (Decrease) in Cash	\$ 104	\$ (28)	\$ (29)	\$ (19)	\$ (107)	\$ 29	\$ (50)

**NOTE 4. EARNINGS PER SHARE**

A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for income before extraordinary items and cumulative effect of accounting change for the years ended December 31, 2000, 1999 and 1998 are shown in the table below:

Year Ended December 31,	2000	1999	1998
<b>Numerators</b>			
Numerator for basic earnings per share:			
Income before extraordinary items and cumulative effect of accounting change	\$7,967	\$6,573	\$7,735
Dilutive potential common shares:			
Other stock-based compensation	6	4	4
Numerator for diluted earnings per share	\$7,973	\$6,577	\$7,739
<b>Denominators</b>			
Denominator for basic earnings per share:			
Weighted average number of common shares outstanding (000,000)	3,392	3,409	3,406
Dilutive potential common shares (000,000):			
Stock options	33	42	38
Other stock-based compensation	8	7	6
Denominator for diluted earnings per share	3,433	3,458	3,450
<b>Basic earnings per share</b>			
Income before extraordinary items and cumulative effect of accounting change	\$ 2.35	\$ 1.93	\$ 2.27
Extraordinary items	—	0.40	(0.02)
Cumulative effect of accounting change	—	0.06	0.01
Net income	\$ 2.35	\$ 2.39	\$ 2.26
<b>Diluted earnings per share</b>			
Income before extraordinary items and cumulative effect of accounting change	\$ 2.32	\$ 1.90	\$ 2.24
Extraordinary items	—	0.40	(0.02)
Cumulative effect of accounting change	—	0.06	0.01
Net income	\$ 2.32	\$ 2.36	\$ 2.23

**NOTE 5. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment is summarized as follows at December 31:

	Lives (years)	2000	1999
Land	—	\$ 592	\$ 589
Buildings	35-45	9,864	10,284
Central office equipment	3-10	47,094	43,335
Cable, wiring and conduit	10-50	47,143	48,785
Other equipment	5-15	10,529	10,455
Software	3	1,438	786
Under construction	—	3,093	2,098
		119,753	116,332
Accumulated depreciation and amortization		72,558	69,761
Property, plant and equipment – net		\$ 47,195	\$ 46,571

Our depreciation expense was \$8,480, \$8,175 and \$7,566 for 2000, 1999 and 1998.

Certain facilities and equipment used in operations are leased under operating or capital leases. Rental expenses under operating leases for 2000, 1999 and 1998 were \$755, \$707 and \$683. At December 31, 2000, the future minimum rental payments under noncancelable operating leases for the years 2001 through 2005 were \$393, \$350, \$275, \$288 and \$169 with \$479 due thereafter. Capital leases are not significant.

**NOTE 6. INVESTMENT IN CINGULAR WIRELESS**

In October 2000, SBC and BellSouth Corporation (BellSouth) began contributions of their wireless properties and formally began operations of their wireless joint venture, Cingular, formed in April 2000. Cingular serves approximately 19 million customers, is the second-largest wireless operator in the United States, and has approximately 190 million potential customers in 38 states, the District of Columbia, Puerto Rico and the United States Virgin Islands. Economic ownership in Cingular is held 60% by SBC and 40% by BellSouth, with control shared equally. Cingular is managed jointly with a four-seat board of directors (two seats from each company). We are accounting for our investment under the equity method of accounting. The contributions to Cingular were made after we received the approval of the United States Department of Justice and the FCC.

The following table is a reconciliation of our investment in Cingular:

	2000
Beginning of year	\$ —
Contributions	2,688
Equity in net income	80
End of year	\$2,768

Undistributed earnings from Cingular were \$80 at December 31, 2000.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

Our initial contributions to Cingular included the assets and liabilities of the wireless operations contributed, totaling a net asset contribution of \$2,688. Included in these amounts were approximately \$9,400 payable to SBC and \$2,500 receivable from SBC, amounts which were previously eliminated in the consolidation process. The notes receivable from Cingular are shown separately in the consolidated balance sheets; their payment is expected in conjunction with Cingular obtaining alternative financing. The payables to Cingular are included in accounts payable and accrued liabilities as shown in Note 18.

In August 2000, we announced a definitive agreement under which we will grant the exclusive right to lease 3,900 communication towers to SpectraSite Communications Inc. (SpectraSite), plus an estimated 800 new towers under a five-year exclusive build-to-suit agreement, for a total of at least 4,700 towers. As part of the agreement, SpectraSite has committed to sublease space on the towers to Cingular under terms similar to Cingular's current lease from us. As of December 31, 2000, we have closed on 739 towers.

We continue to employ approximately 15,000 wireless employees, incurring costs for their salaries and related benefits. We have entered into a services contract with Cingular under which these employees provide services to Cingular, and we bill Cingular for these costs. For the fourth quarter of 2000, we billed Cingular approximately \$117 for these employee-related costs.

In addition, our wireline operations have historically recorded network access revenue from interconnection agreements with our wireless properties, which was eliminated in the consolidation process. For operations contributed to Cingular, this network access revenue is no longer eliminated. During the fourth quarter of 2000, the incremental amount of network access revenue from Cingular, which was previously eliminated, was approximately \$37.

At December 31, 2000, we had accounts receivable from Cingular of \$134, accounts payable to Cingular of \$3,072 and notes receivable from Cingular of \$9,568 with an interest rate of 7.5%, which includes a net interest receivable of \$159. Included in the accounts payable to Cingular is approximately \$558 for properties we committed to contribute to Cingular at a future date.

The following table presents summarized financial information for Cingular at December 31, or for the three months then ended:

	2000
<b>Income Statement</b>	
Operating revenues	\$ 3,060
Operating income	381
Net income	127
<b>Balance Sheet</b>	
Current assets	\$ 2,343
Noncurrent assets	15,575
Current liabilities	3,467
Noncurrent liabilities	12,000

## NOTE 7. OTHER EQUITY INVESTMENTS

Investments in equity affiliates are accounted for under the equity method and include the June 1999 purchase of a 20% interest in Bell Canada, the largest supplier of telecommunications services in Canada, and a 41.6% interest in Tele Danmark A.S. (Tele Danmark), the national communications provider in Denmark (see Note 15). SBC currently is able to elect six of twelve members of the Tele Danmark Board of Directors, including the Chairman, who would cast any tie-breaking vote.

In November 2000, Tele Danmark signed agreements to increase its investment in Sunrise, a Swiss landline and Internet operator, and to purchase a 70% stake in diAx A.G. (diAx), a Swiss mobile and landline operator, with the intent of consolidating its Swiss operations by subsequently merging diAx with Sunrise. As part of this transaction, Tele Danmark will obtain our 40% interest in diAx and we will receive 1,200 million Swiss francs (approximately \$783) in cash and notes. The transaction received regulatory approval and closed in January 2001. Due to the nature of our investment in Tele Danmark, we will account for the consideration received as a dividend from an equity investee.

Investments in equity affiliates also include our investment in Teléfonos de México, S.A. de C.V. (Telmex), Mexico's national telecommunications company. We are a member of a consortium that holds all of the AA shares of Telmex stock, representing voting control of the company. Another member of the consortium, Carso Global Telecom, S.A. de C.V., has the right to appoint a majority of the directors of Telmex. In 1999 and through the third quarter of 2000, we also owned class L shares, which have limited voting rights. Throughout 1999 and the first seven months of 2000, we sold portions of our class L shares in response to open market share repurchases by Telmex, so that our total equity investment remained below 10% of Telmex's total equity capitalization. In September of 2000, we sold the remainder of our class L shares in conjunction with the purchase of a note receivable with characteristics that will essentially offset future mark to market adjustments on our Debt Exchangeable for Common Stock (DECS), which are redeemable in either L shares or cash upon maturity in 2001. At December 31, 2000 and 1999, we held an approximate 7.6% and 8.9% equity interest in Telmex.

In September 2000, Telmex announced the spinoff of its cellular business and most of its international investments, into a new company called América Móvil S.A. de C.V. (America Movil). Telmex shareholders received an equivalent number of America Movil shares upon commencement of trading, which occurred in February 2001. As a result, we have an approximate 7.6% equity interest in America Movil.

Other major equity investments that we hold include a 17.5% interest in Belgacom S.A. (Belgacom), the national communications provider in Belgium, an 18% interest in

Telkom SA Limited (Telkom), the state-owned telecommunications company of South Africa, a 43.6% interest in TransAsia, a Taiwanese wireless company, and a 15% interest in Cegetel S.A., a joint venture providing a broad range of telecommunications offerings in France. Tele Danmark also holds a 16.5% interest in Belgacom.

In the third quarter of 2000, we exercised our rights to sell our interest in MATÁV, a Hungarian telecommunications company, and our interest in Netcom GSM, a wireless telecommunications provider in Norway (see Note 15).

In January 2000, we purchased a 25% investment in ATL – Algar Telecom Leste S.A. (ATL), a Brazilian telecommunications company. In the fourth quarter of 2000, we closed an agreement with America Movil and Bell Canada International to form a new, facilities-based communications company, Telecom Américas Ltd. (Telecom Americas), which will serve as the three companies' principal vehicle for expansion in Latin America. We obtained an 11.4% stake in Telecom Americas by contributing our investment in ATL. Our investment in Telecom Americas will be accounted for under the cost method of accounting. As a result of the transaction, we recognized a direct gain of approximately \$179 (\$116 net of tax).

The following table is a reconciliation of our investments in equity affiliates other than Cingular:

	2000	1999	1998
Beginning of year	\$10,648	\$ 7,412	\$4,453
Additional investments	783	3,702	3,159
Equity in net income	817	912	613
Dividends received	(376)	(445)	(344)
Currency translation adjustments	(849)	(707)	169
Dispositions and other adjustments	(1,413)	(226)	(638)
End of year	\$ 9,610	\$10,648	\$7,412

The currency translation adjustment for 2000 primarily reflects the effect of exchange rate fluctuations on our investments in Tele Danmark, Telmex, Telkom and Bell Canada. Dispositions and other adjustments for 2000 reflect the sale of Telmex L shares, the sale of our investment in MATÁV and the contribution of ATL to Telecom Americas.

The currency translation adjustment for 1999 primarily reflects the effect of exchange rate fluctuations on our investments in Tele Danmark and Belgacom. Dispositions and other adjustments for 1999 reflect the sale of portions of Telmex L shares and the sale of our investment in Chile.

The currency translation adjustment for 1998 primarily reflects the effect of exchange rate fluctuations on our investment in Tele Danmark partially offset by exchange rate fluctuations on our investment in Telkom. Dispositions and other adjustments for 1998 reflect the sale of Telecom Corporation of New Zealand Limited (TCNZ) shares, a write-down of an international investment and the sale of portions of Telmex L shares.

Undistributed earnings from equity affiliates were \$2,060 and \$1,788 at December 31, 2000 and 1999.

The following table presents summarized financial information of significant international investments accounted for using the equity method taking into account all adjustments necessary to conform to GAAP, but excluding our purchase adjustments including goodwill, at December 31, or for the year then ended:

	2000	1999	1998
<b>Income Statements</b>			
Operating revenues	\$40,190	\$32,776	\$24,232
Operating income	11,911	8,941	6,383
Net income	5,714	4,892	3,515
<b>Balance Sheets</b>			
Current assets	\$17,092	\$13,961	
Noncurrent assets	37,052	40,616	
Current liabilities	16,490	13,395	
Noncurrent liabilities	25,318	23,376	

At December 31, 2000, we had goodwill, net of accumulated amortization of approximately \$5,265 related to investments in equity affiliates. Based on the December 31, 2000, quoted market price, the aggregate market value of our investment in Tele Danmark was approximately \$3,700. The fair value of our investment in Telmex, based on the equivalent value of Telmex L shares, at December 31, 2000, was approximately \$2,400. Our weighted average share of operating revenues shown above was 17% in 2000 and 19% in 1999 and 1998.

#### NOTE 8. SEGMENT INFORMATION

Our segments are strategic business units that offer different products and services and are managed accordingly. We evaluate performance based on income before income taxes adjusted for normalizing (e.g., one-time) items. Transactions among segments are reported at fair value and the accounting policies of the segments are the same as those described in Note 1.

As a result of the reorganization of management in the fourth quarter of 2000, we have adjusted our segment reporting structure. We now have five reportable segments that reflect the current management of our business: wireline, wireless, directory, international and other. Directory, which was formerly included in the information and entertainment segment, is now a stand-alone segment. SecurityLink and Ameritech's cable television operations, which were formerly included in the information and entertainment segment, as well as Ameritech's paging operations, which were formerly included in the wireless segment, and all corporate operations, which were formerly included in corporate, adjustments, and eliminations have been moved to the other segment.

The wireline segment provides landline telecommunications services, including local, network access and

long distance services, messaging and Internet services and sells customer premise and private business exchange equipment.

Prior to the fourth quarter of 2000, the wireless segment included our consolidated businesses that provided wireless telecommunications services and sold wireless equipment. In October 2000, we contributed substantially all of our wireless businesses to Cingular and began reporting results from Cingular's operations as equity income in the consolidated financial statements (see Note 6). However, for internal management purposes, we analyze Cingular's results using proportional consolidation and therefore will discuss Cingular's results on that basis for segment reporting.

The directory segment includes all directory operations of SBC including yellow and white pages advertising and electronic publishing. All investments with primarily international operations are included in the international segment.

Included in the other segment are differences in accounting between subsidiaries and consolidated financial statements for pension and postretirement benefits and the treatment of conforming accounting adjustments arising out of the pooling of interests transactions with Ameritech, SNET and PAC that were required to be treated as cumulative effect of accounting changes by the subsidiaries.

**Normalized results for 2000 exclude the following items:**

- Gains of \$1,886 (\$1,248 net of tax) related to the sale of direct and indirect investments in MATÁV and Netcom GSM, two international equity affiliates, and from the contribution of our investment in ATL to Telecom Americas.
- Gains of \$238 (\$155 net of tax) on the sale of Telmex L shares associated with our private purchase of a note receivable with characteristics that will essentially offset future mark to market adjustments on DECS.
- Pension settlement gains of \$512 (\$328 net of tax) associated with pension litigation, first quarter payments primarily related to employees who terminated employment during 1999 and gains resulting from a voluntary retirement program net of enhanced pension and postretirement benefits associated with that program (see Note 12).
- Costs of \$1,205 (\$800 net of tax) associated with strategic initiatives and other adjustments resulting from the merger integration process with Ameritech.
- A charge of \$132 (with no tax effect) related to in-process research and development from the March 2000 acquisition of Sterling Commerce, Inc. (Sterling) (see Note 15).

- Combined charges of \$971 (\$677 net of tax) related to valuation adjustments of SecurityLink, and certain cost investments accounted for under Financial Accounting Standards Board Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (FAS 115), and the restructure of agreements with Prodigy Communications Corporation (Prodigy), including the extension of a credit facility and recognition of previously unrecognized equity losses from our investment (see Note 16).
- Gains of \$359 (\$99 net of tax) primarily related to our required disposition of overlapping wireless properties in connection with our contribution of operations to Cingular.

**Normalized results for 1999 exclude the following items:**

- Charges totaling \$1,766 (\$1,457 net of tax) including, recognition of impairment of long-lived assets, adjustments to the estimate of allowance for doubtful accounts, estimation of deferred taxes on international investments, wireless conversion costs and other items (see Note 2).
- Elimination of income of \$197 (\$119 net of tax) from the incremental impacts of overlapping wireless properties sold in October 1999 related to the Ameritech merger.
- Pension settlement gains of \$566 (\$368 net of tax) associated with lump sum pension payments that exceeded the projected service and interest costs.
- Gains of \$131 (\$77 net of tax) recognized from the sale of property by an international equity affiliate.
- A reduction of \$45 (\$27 net of tax) related to a portion of a first quarter 1998 charge to cover the cost of consolidating security monitoring centers and company-owned wireless retail stores.

**Normalized results for 1998 exclude the following items:**

- Gain of \$1,543 (\$1,012 net of tax) from the sale of TCNZ shares.
- Charges of \$433 (\$268 net of tax) related to strategic initiatives resulting from the merger integration process with SNET.
- Gains of \$358 (\$219 net of tax) from the sale of certain non-core businesses, principally the required disposition of our investment in MTN, a cellular company in South Africa.
- Elimination of income of \$221 (\$123 net of tax) from the incremental impacts of overlapping wireless properties sold in October 1999 related to the Ameritech merger.
- Gains of \$170 (\$102 net of tax) from the sale of certain telephone and directory assets.
- Charges of \$104 (\$64 net of tax) to cover the cost of consolidating security monitoring centers and company-owned wireless retail stores.

Segment results, including a reconciliation to SBC consolidated results, for 2000, 1999 and 1998 are as follows:

At December 31, 2000 or for the year ended	Wireline	Wireless	Directory	International	Other	Cingular De- consolidation	Eliminations	Normalizing Adjustments	Total
Revenues from									
external customers	\$39,789	\$ 7,941	\$4,251	\$ 320	\$ 1,034	\$ (1,836)	\$ —	\$ (23)	\$51,476
Intersegment revenues	187	1	89	8	86	—	(371)	—	—
Depreciation and amortization	7,656	1,086	32	17	560	(253)	—	650	9,748
Equity in net income of affiliates	(12)	12	—	862	(1)	72	—	(36)	897
Interest expense	1,240	424	4	174	898	(139)	(1,009)	—	1,592
Income before income taxes	7,192	975	2,361	930	743	2	—	685	12,888
Segment assets	64,565	12,475	2,808	12,282	58,315	(10,751)	(41,043)	—	98,651
Investment in equity method investees	23	232	20	9,394	2,749	(40)	—	—	12,378
Expenditures for additions to long-lived assets	11,293	856	35	—	940	—	—	—	13,124

At December 31, 1999 or for the year ended	Wireline	Wireless	Directory	International	Other	Cingular De- consolidation	Eliminations	Normalizing Adjustments	Total
Revenues from									
external customers	\$37,108	\$ 6,624	\$4,045	\$ 242	\$ 983	\$ —	\$ —	\$ 529	\$49,531
Intersegment revenues	322	1	81	13	97	—	(514)	—	—
Depreciation and amortization	6,825	918	33	17	345	—	—	415	8,553
Equity in net income of affiliates	(2)	42	—	739	2	—	—	131	912
Interest expense	1,188	226	9	235	702	—	(942)	12	1,430
Income before income taxes	8,046	883	2,011	702	39	—	—	(828)	10,853
Segment assets	53,692	11,559	2,422	12,613	44,815	—	(41,886)	—	83,215
Investment in equity method investees	31	216	48	10,372	(19)	—	—	—	10,648
Expenditures for additions to long-lived assets	8,754	988	52	1	509	—	—	—	10,304

At December 31, 1998 or for the year ended	Wireline	Wireless	Directory	International	Other	Cingular De- consolidation	Eliminations	Normalizing Adjustments	Total
Revenues from									
external customers	\$35,059	\$ 5,475	\$3,680	\$ 132	\$ 1,011	\$ —	\$ —	\$ 884	\$46,241
Intersegment revenues	305	1	73	17	126	—	(522)	—	—
Depreciation and amortization	6,437	680	36	18	345	—	—	325	7,841
Equity in net income of affiliates	(5)	25	—	588	5	—	—	—	613
Interest expense	1,250	189	9	213	662	—	(739)	21	1,605
Income before income taxes	7,315	545	1,797	453	250	—	—	1,755	12,115
Segment assets	50,921	9,124	2,065	11,230	38,385	—	(36,759)	—	74,966
Investment in equity method investees	47	244	34	7,106	(19)	—	—	—	7,412
Expenditures for additions to long-lived assets	7,471	978	35	13	385	—	—	—	8,882



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

## Geographic Information

SBC's investments outside of the United States are primarily accounted for under the equity method of accounting, and accordingly, we do not include in our operating revenues and expenses, the revenues and expenses of our individual investees. Specifically, less than 1% of total operating revenues for all years presented are from outside the United States.

Long-lived assets consist primarily of net property, plant and equipment, net goodwill and the book value of our equity investees and are shown in the table below:

December 31,	2000	1999
United States	\$53,885	\$48,924
Canada	3,593	3,770
Denmark	3,024	3,019
Mexico	738	906
Belgium	861	831
South Africa	596	708
Hungary	—	532
France	406	459
Other foreign countries	189	129
Total	\$63,292	\$59,278

## NOTE 9. DEBT

Long-term debt of SBC and its subsidiaries, including interest rates and maturities, is summarized as follows at December 31:

	2000	1999
Notes and debentures		
4.38% - 6.00% 2000 - 2008 <sup>1</sup>	\$ 2,831	\$ 3,056
6.03% - 7.85% 2000 - 2048 <sup>2</sup>	14,584	13,990
8.00% - 10.50% 2000 - 2031	556	577
	17,971	17,623
Unamortized discount - net of premium	51	236
Total notes and debentures	18,022	17,859
Guaranteed obligations of ESOP <sup>3</sup>		
8.10% - 9.40% 2000	—	88
Capitalized leases	84	258
Total long-term debt, including		
current maturities	18,106	18,205
Current maturities	(2,614)	(730)
Total long-term debt	\$15,492	\$17,475

<sup>1</sup>Includes \$250 of 5.9% debentures maturing in 2038 with a put option by holder in 2005.

<sup>2</sup>Includes \$125 of 6.35% debentures maturing in 2026 with a put option by holder in 2006.

<sup>3</sup>See Note 13.

At December 31, 2000, the aggregate principal amounts of long-term debt and weighted average interest rate scheduled for repayment for the years 2001 through 2005 were \$2,614 (6.7%), \$1,089 (6.6%), \$1,678 (6.0%), \$1,097 (6.5%) and \$1,158 (6.9%) with \$10,419 (6.9%) due thereafter. As of December 31, 2000, we were in compliance with all covenants and conditions of instruments governing our debt. Substantially all of our outstanding long-term debt is unsecured.

In January 2000, we voluntarily guaranteed existing publicly, but unlisted, issued debt securities issued by Ameritech Capital Funding Corporation, Illinois Bell

Telephone Company, Indiana Bell Telephone Company, Inc., Michigan Bell Telephone Company, The Ohio Bell Telephone Company, PacBell, SNET, The Southern New England Telephone Company, SWBell and Wisconsin Bell, Inc. Each guarantee will apply as long as the individual company remains a wholly owned subsidiary of SBC.

**Financing Activities** - In May 2000, we issued \$1,000 in notes through private placement. These notes have a 6.72% interest rate and will mature May 2001. In April 2000, we issued notes for \$1,015 with an interest rate of 6.33% that also mature in May 2001.

In December 1999, we called approximately \$31 of debt that was scheduled to mature in December 2004. The net income effect of retiring this debt did not materially impact our financial statements. During 1999, subsequent to the completion of the acquisitions of Comcast Cellular Corporation (Comcast) and Cellular Communications of Puerto Rico, Inc. (Cellular Communications), we retired \$1,415 of Comcast's and Cellular Communications' long-term debt with no effect on net income. In May 1999, we issued \$750 of 6.25% unsecured Eurodollar notes, due May 2009.

In 1998, we issued approximately \$2,150 in notes and debentures. The notes and debentures bear interest rates ranging from 5.65% to 6.88% and mature between 2001 and 2048. Also, in 1998, we issued \$750 of 5.88% unsecured Eurodollar notes, due February 2003. We used proceeds from these borrowings primarily to fund our investment in Tele Danmark.

Debt maturing within one year consists of the following at December 31:

	2000	1999
Commercial paper	\$ 6,437	\$2,623
Current maturities of long-term debt	2,614	730
Other short-term debt	1,419	21
Total	\$10,470	\$3,374

The weighted average interest rate on commercial paper debt at December 31, 2000 and 1999 was 6.51% and 5.72%. We have entered into agreements with several banks for committed lines of credit totaling \$4,200, all of which may be used to support commercial paper borrowings. We had no borrowings outstanding under these lines of credit as of December 31, 2000 or 1999.

## NOTE 10. FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of our long-term debt, including current maturities and other financial instruments, are summarized as follows at December 31:

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes and debentures	\$18,022	\$17,592	\$17,859	\$17,086
TOPRS	1,000	990	1,000	924
Preferred stock				
of subsidiaries	820	820	820	820
Guaranteed obligations				
of ESOP <sup>1</sup>	—	—	88	94

<sup>1</sup>See Note 13.

The fair values of our notes and debentures, including ESOP obligations, were estimated based on quoted market prices, where available, or on the net present value method of expected future cash flows using current interest rates. The fair value of the Trust Originated Preferred Securities (TOPrS) was estimated based on quoted market prices. The carrying amounts of preferred stock of subsidiaries and commercial paper debt approximate fair values. Our short-term investments and customer deposits are recorded at amortized cost and the carrying amounts approximate fair values.

**Preferred Stock Issuances by Subsidiaries** – In April 1998, a subsidiary issued, through private placement, 3,250 shares in multiple series of stated rate auction preferred stock (STRAPS). Net proceeds from these issuances totaled \$322. Dividends accrue on the STRAPS at varying rates, which are adjusted periodically through separate auctions on each series. Dividends are cumulative from the date of issuance. The dividend rates for each series ranged from 4.88% to 4.98% as of December 31, 2000.

In June 1997 and December 1999, a subsidiary issued \$250 and \$100 of preferred stock in private placements. The holders of the preferred stock may require SBC's subsidiary to redeem the shares after May 20, 2004. Holders receive quarterly dividends based on a rolling three-month London Interbank Offer Rate (LIBOR). The dividend rate for the December 31, 2000 payment was 7.59%.

As of December 31, 2000, a subsidiary has outstanding \$85 of Series A Preferred Stock (7.04%, subject to mandatory redemption in 2001) and \$60 of Series B Preferred Stock (variable rate, 4.98% as of December 31, 2000, not subject to mandatory redemption).

The preferred stock of subsidiaries discussed above is included in other noncurrent liabilities on the consolidated balance sheets.

Pacific Telesis Financing I and II (the Trusts) were formed in 1996 for the exclusive purpose of issuing preferred and common securities representing undivided beneficial interests in the Trusts and investing the proceeds from the sales of TOPrS in unsecured subordinated debt securities of PAC. Under certain circumstances, dividends on TOPrS could be deferred for up to a period of five years. As of December 31, 2000, the Trusts held subordinated debt securities of PAC in principal amounts of \$516 and \$514 with interest rates of 7.56% and 8.50%. The TOPrS are priced at \$25 per share, have an original 30-year maturity that may be extended up to 49 years, are callable in 2001 at par and are included on the balance sheets as corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts. The proceeds were used to retire short-term indebtedness, primarily commercial paper. SBC has guaranteed payment of the obligations of the TOPrS. We redeemed approximately \$500 of the TOPrS with an interest rate of 7.56% in February of 2001.

**Derivatives** – We enter into foreign currency contracts to hedge exposure to adverse exchange rate fluctuations. We also use interest rate swaps to manage interest rate risk. Related gains and losses are reflected in net income. The carrying amounts and estimated fair values of our derivative financial instruments are summarized as follows at December 31:

	2000		1999	
	Carrying/ Notional Amount	Fair Value	Carrying/ Notional Amount	Fair Value
Foreign exchange contracts – long	\$ —	\$ —	\$ —	\$142
Foreign exchange contracts – short	11	—	—	—
Interest rate swaps	1,020	4	1,180	(14)

Prior to its merger with an SBC subsidiary, PAC issued stock options to its employees during a spinoff of certain wireless properties. Some of these options were still outstanding when PAC merged with an SBC subsidiary in 1997 (see Note 13). SBC had used equity swaps to hedge the equity price risk related to these spinoff operations' employee stock options. However, in 1999 we evaluated the related risk level and exited all of our related equity swap contracts, receiving cash for the appreciated value of the contracts and recognizing a minimal gain.

#### NOTE 11. INCOME TAXES

Significant components of our deferred tax liabilities and assets are as follows at December 31:

	2000	1999
Depreciation and amortization	\$ 7,683	\$ 6,865
Equity in foreign affiliates	789	540
Deferred directory expenses	533	524
Other	1,794	1,254
Deferred tax liabilities	10,799	9,183
Employee benefits	2,069	2,418
Currency translation adjustments	698	586
Allowance for uncollectibles	205	222
Unamortized investment tax credits	122	147
Other	2,052	1,850
Deferred tax assets	5,146	5,223
Deferred tax assets valuation allowance	156	99
Net deferred tax liabilities	\$ 5,809	\$ 4,059

The increase in the valuation allowance is the result of an evaluation of the uncertainty associated with the realization of certain deferred tax assets. The valuation allowance is maintained in deferred tax assets for certain unused federal and state loss carryforwards.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

The components of income tax expense are as follows:

	2000	1999	1998
Federal:			
Current	\$3,249	\$2,883	\$3,151
Deferred – net	1,051	814	671
Amortization of investment tax credits	(71)	(85)	(96)
	4,229	3,612	3,726
State and local:			
Current	575	421	485
Deferred – net	113	247	169
Foreign	4	—	—
	692	668	654
Total	\$4,921	\$4,280	\$4,380

A reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate (35%) to income before income taxes, extraordinary items and cumulative effect of accounting change is as follows:

	2000	1999	1998
Taxes computed at federal statutory rate	\$4,511	\$3,798	\$4,240
Increases (decreases) in income taxes resulting from:			
Amortization of investment tax credits over the life of the plant that gave rise to the credits	(46)	(55)	(62)
State and local income taxes – net of federal income tax benefit	450	440	424
Other – net	6	97	(222)
Total	\$4,921	\$4,280	\$4,380

## NOTE 12. EMPLOYEE BENEFITS

**Pensions** – Substantially all of our employees are covered by one of various noncontributory pension and death benefit plans. Management employees participate in either cash balance or defined lump sum pension plans. The pension benefit formula for most nonmanagement employees is based on a flat dollar amount per year according to job classification. Most employees can elect to receive their pension benefits in either a lump sum payment or annuity.

Our objective in funding the plans, in combination with the standards of the Employee Retirement Income Security Act of 1974 (as amended), is to accumulate funds sufficient to meet its benefit obligations to employees upon their retirement. Contributions to the plans are made to a trust for the benefit of plan participants. Plan assets consist primarily of stocks, U.S. government and domestic corporate bonds, index funds and real estate.

Effective with the Ameritech merger, we performed a midyear valuation for all pension plans in 1999. The amounts that follow reflect the impacts and assumptions of the midyear valuation.

The following table presents the change in the pension plan benefit obligation for the years ended December 31:

	2000	1999
Benefit obligation at beginning of year	\$25,685	\$27,528
Service cost – benefits earned during the period	525	584
Interest cost on projected benefit obligation	1,927	1,831
Amendments	425	460
Actuarial (gain)/loss	940	(1,121)
Special termination benefits	1,104	32
Benefits paid	(5,029)	(3,629)
Benefit obligation at end of year	\$25,577	\$25,685

The following table presents the change in pension plan assets for the years ended December 31 and the pension plans' funded status at December 31:

	2000	1999
Fair value of plan assets at beginning of year	\$ 45,958	\$ 41,794
Actual return on plan assets	95	8,065
Benefits paid	(5,239)	(3,901)
Fair value of plan assets at end of year <sup>1</sup>	\$ 40,814	\$ 45,958
Funded status	\$ 15,237	\$ 20,273
Unrecognized prior service cost	1,963	1,898
Unrecognized net gain	(11,395)	(17,926)
Unamortized transition asset	(683)	(1,036)
Prepaid pension cost	\$ 5,122	\$ 3,209

<sup>1</sup>Plan assets include SBC common stock of \$18 at December 31, 2000, and \$34 at December 31, 1999.

The following table presents amounts recognized in our consolidated balance sheets at December 31:

	2000	1999
Prepaid pension cost	\$5,122	\$3,539
Accrued pension liability	—	(330)
Net amount recognized	\$5,122	\$3,209

Net pension benefit is composed of the following:

	2000	1999	1998
Service cost – benefits earned during the period	\$ 525	\$ 584	\$ 548
Interest cost on projected benefit obligation	1,927	1,831	1,813
Expected return on plan assets	(3,149)	(2,951)	(2,722)
Amortization of prior service cost	43	(35)	(57)
Recognized actuarial gain	(491)	(273)	(161)
Net pension benefit	\$ (1,145)	\$ (844)	\$ (579)

Significant weighted-average assumptions used in developing pension information include:

	2000	1999	1998
Discount rate for determining projected benefit obligation	7.75%	7.75%	7.0%
Long-term rate of return on plan assets	8.50%	8.50%	8.5%
Composite rate of compensation increase	4.25%	4.25%	4.2%

The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to previously rendered employee service. It is measured based on assumptions concerning future interest rates and employee compensation levels. Should actual experience differ from the actuarial assumptions, the benefit obligation will be affected.

In October 2000, we implemented a voluntary enhanced pension and retirement program (EPR) to reduce the number of management employees. The program offered eligible management employees who decided to terminate employment an enhanced pension benefit and increased eligibility for postretirement medical and dental benefits. Enhanced pension benefits related to this program were recognized as an expense of \$1.1 billion in 2000. Approximately 7,000 of the employees who accepted this offer terminated employment before December 31, 2000; however, under the program, approximately 2,400 employees were retained for up to one year. Lump sum payments for settlement of pension balances, which are paid by the pension trusts, are expected to occur throughout 2001. We recognized \$896 in net settlement and curtailment gains in the fourth quarter of 2000 associated with the EPR program.

In addition to the net pension benefit and EPR related amounts reported above, we recognized \$1.2 billion in net settlement gains in 2000 and \$566 in 1999. In addition to payments made for EPR, there were a significant amount of lump sum pension payments that caused a partial settlement of Ameritech's pension plans. We anticipate that additional lump sum payments will require the recognition of additional settlement gains in 2001.

In December 2000 and December 1999, under the provisions of Section 420 of the Internal Revenue Code, we transferred \$220 and \$280 in pension assets to a health care benefit account for the reimbursement of certain retiree health care benefits paid by us.

**Supplemental Retirement Plans** – We also provide senior and middle management employees with nonqualified, unfunded supplemental retirement and savings plans. These plans include supplemental defined pension benefits as well as compensation deferral plans, some of which include a corresponding match by us based on a percentage of the compensation deferral. Expenses related to these plans were \$191, \$146 and \$114 in 2000, 1999 and 1998. Liabilities of \$1,283 and \$1,287 related to these plans have been included in other noncurrent liabilities in our consolidated balance sheets at December 31, 2000 and 1999.

**Postretirement Benefits** – We provide certain medical, dental and life insurance benefits to substantially all retired employees under various plans and accrue actuarially determined postretirement benefit costs as active employees earn these benefits. In 1998, for certain plans, postretirement benefit cost reflects an estimate of potential future cost sharing by retirees. We maintain Voluntary Employee Beneficiary Association trusts to fund postretirement benefits. Assets consist principally of stocks and U.S. government and corporate bonds.

The following table sets forth the change in the benefit obligation for the years ended December 31:

	2000	1999
Benefit obligation at beginning of year	\$15,511	\$15,489
Service cost – benefits earned during the period	245	260
Interest cost on projected benefit obligation	1,201	1,050
Amendments	(134)	(2)
Actuarial (gain)/loss	1,776	(515)
Special termination benefits	79	—
Benefits paid	(876)	(771)
Benefit obligation at end of year	\$17,802	\$15,511

The following table sets forth the change in plan assets for the years ended December 31 and the plans' funded status at December 31:

	2000	1999
Fair value of plan assets at beginning of year	\$ 7,871	\$ 6,869
Actual return on plan assets	(401)	1,199
Employer contribution	42	93
Benefits paid	(292)	(290)
Fair value of plan assets at end of year <sup>1</sup>	\$ 7,220	\$ 7,871
Funded status	\$(10,582)	\$(7,640)
Unrecognized prior service cost	680	960
Unrecognized net (gain)/loss	203	(2,460)
Accrued postretirement benefit obligation	\$ (9,699)	\$(9,140)

<sup>1</sup>Plan assets include SBC common stock of \$1 at December 31, 2000, and \$10 at December 31, 1999.

Postretirement benefit cost is composed of the following:

	2000	1999	1998
Service cost – benefits earned during the period	\$ 245	\$ 260	\$ 193
Interest cost on accumulated postretirement benefit obligation (APBO)	1,201	1,050	904
Expected return on assets	(549)	(504)	(419)
Amortization of prior service cost	147	157	(260)
Recognized actuarial gain	(33)	(13)	(12)
Postretirement benefit cost	\$1,011	\$ 950	\$ 406

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

The fair value of plan assets restricted to the payment of life insurance benefits was \$1,114 and \$1,277 at December 31, 2000 and 1999. At December 31, 2000 and 1999, the accrued life insurance benefits included in the APBO were \$593 and \$540.

In addition to the postretirement benefit cost reported in the table above, we recognized \$107 in net curtailment losses in 2000 associated with EPR. Enhanced benefits related to this program were recognized as an expense of \$71 in 2000.

The assumed medical cost trend rate in 2001 is 8.0% for retirees 64 and under and 9.0% for retirees 65 and over, decreasing to 5.0% in 2006, prior to adjustment for cost-sharing provisions of the medical and dental plans for active and certain recently retired employees. The assumed dental cost trend rate in 2001 is 5.25%, reducing to 5.0% in 2002. A one percentage-point change in the assumed health care cost trend rate would have the following effects:

	One Percentage- Point Increase	One Percentage- Point Decrease
Effect on total of service and interest cost components	\$ 192	\$ 155
Effect on postretirement benefit obligation	1,999	1,651

Significant assumptions for the discount rate, long-term rate of return on plan assets and composite rate of compensation increase used in developing the APBO and related postretirement benefit costs were the same as those used in developing the pension information. Due to the Ameritech merger, a midyear valuation also was performed for all postretirement benefit plans in 1999.

## NOTE 13. OTHER EMPLOYEE BENEFITS

**Employee Stock Ownership Plans** – We maintain contributory savings plans that cover substantially all employees. Under the savings plans, we match a stated percentage of eligible employee contributions, subject to a specified ceiling.

As a result of past mergers, we have six leveraged ESOPs as part of our existing savings plans. Five of the ESOPs were funded with notes issued by the savings plans to various lenders, the proceeds of which were used to purchase shares of SBC's common stock in the open market. The original principal amounts were paid off in 2000 with our contributions to the savings plans, dividends paid on SBC shares and interest earned on funds held by the ESOPs. We extended the terms of certain ESOPs through previous internal refinancing of the debt, resulting in unallocated shares remaining in those ESOPs at December 31, 2000.

One ESOP purchased PAC treasury shares in exchange for a promissory note from the plan to PAC. Principal and interest on the note are paid from employer contributions and dividends received by the trust. All PAC shares were exchanged for SBC shares effective with the merger April 1, 1997. The provisions of the ESOP were unaffected by this exchange.

Our match of employee contributions to the savings plans is fulfilled with shares of stock allocated from the ESOPs and with purchases of SBC's stock in the open market. Shares held by the ESOPs are released for allocation to the accounts of employees as employer-matching contributions are earned. Benefit cost is based on a combination of the contributions to the savings plans and the cost of shares allocated to participating employees' accounts. Both benefit cost and interest expense on the notes are reduced by dividends on SBC's shares held by the ESOPs and interest earned on the ESOPs' funds.

Information related to the ESOPs and the savings plans is summarized below:

	2000	1999	1998
Benefit expense – net of dividends and interest income	\$134	\$ 90	\$ 77
Interest expense – net of dividends and interest income	5	10	25
Total expense	\$139	\$100	\$102
Company contributions for ESOPs	\$ 47	\$104	\$142
Dividends and interest income for debt service	\$ 93	\$ 75	\$100

SBC shares held by the ESOPs are summarized as follows at December 31 (in millions):

	2000	1999
Unallocated	8	16
Allocated to participants	103	101
Total	111	117

## NOTE 14. STOCK-BASED COMPENSATION

Under our various plans, senior and other management employees and non-employee directors have received stock options, stock appreciation rights (SARs), performance stock units and nonvested stock units. Stock options issued through December 31, 2000, carry exercise prices equal to the market price of the stock at the date of grant and have maximum terms ranging from five to ten years. Beginning in 1994 and ending in 1999, certain Ameritech employees were awarded grants of nonqualified stock options with dividend equivalents. Depending upon the grant, vesting of stock options may occur up to four years from the date of grant. Performance stock units are granted to key employees based upon the common stock price at the date of grant and are awarded in the form of common stock and cash at the end of a two- or three-year period, subject to the achievement of certain performance goals. Nonvested stock units are valued at the market price of the stock at the date of grant and vest over a three- to five-year period. Up to 431 million shares may be issued under these plans.

We measure compensation cost for these plans using the intrinsic value-based method of accounting as allowed in Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123). Accordingly, no compensation cost for our stock option plans has been recognized. Had compensation cost for stock option plans been recognized using the fair value-based method of accounting at the date of grant for awards in 2000, 1999 and 1998 as defined by FAS 123, our net income would have been \$7,800, \$7,969 and \$7,537, and basic net income per share would have been \$2.30, \$2.34 and \$2.21. The compensation cost that has been charged against income for our other stock-based compensation plans totaled \$4, \$36 and \$83 for 2000, 1999 and 1998.

For purposes of these pro forma disclosures, the estimated fair value of the options granted is amortized to expense over the options' vesting period. The fair value for these options was estimated at the date of grant, using a Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2000, 1999 and 1998: risk-free interest rate of 6.67%, 5.31% and 5.69%; dividend yield of 2.19%, 1.65% and 2.38%; expected volatility factor of 16%, 15% and 18%; and expected option life of 4.6, 4.5 and 5.0 years.

As of December 31, 1998, 29,390 shares of nonperformance-based restricted stock issued to Ameritech employees were outstanding under the Ameritech plans. Shareowners' equity reflects deferred compensation for the unvested stock awarded. This amount was reduced and charged against operations (together with any change in market price) as the employees vested in the stock. All restricted stock under Ameritech plans vested as a result of the Ameritech merger with one of our subsidiaries in 1999.

Information related to options and SARs is summarized below (shares in millions):

	Number	Weighted-Average Exercise Price
Outstanding at January 1, 1998	144	\$22.27
Granted	35	39.46
Exercised	(26)	20.61
Forfeited/Expired	(7)	29.64
Outstanding at December 31, 1998 (73 exercisable at weighted-average price of \$20.85)	146	26.26
Granted	26	48.70
Exercised	(19)	23.13
Forfeited/Expired	(4)	39.06
Outstanding at December 31, 1999 (116 exercisable at weighted-average price of \$26.91)	149	30.24
Granted	51	39.62
Exercised	(30)	24.14
Forfeited/Expired	(14)	41.05
Outstanding at December 31, 2000 (101 exercisable at weighted-average price of \$29.22)	156	\$33.55

Information related to options and SARs outstanding at December 31, 2000:

	\$10.90- \$17.39	\$17.40- \$29.99	\$30.00- \$35.49	\$35.50- \$59.00
Exercise Price Range				
Number of options and SARs (in millions):				
Outstanding	8	61	8	79
Exercisable	8	61	8	24
Weighted-average exercise price:				
Outstanding	\$15.26	\$24.08	\$34.17	\$42.64
Exercisable	\$15.26	\$24.08	\$34.17	\$45.65
Weighted-average remaining contractual life	3.25 years	5.38 years	7.30 years	8.52 years

The weighted-average, grant-date fair value of each option granted during 2000, 1999 and 1998 was \$8.31, \$9.31 and \$8.71.

As of December 31, additional shares available under stock options with dividend equivalents were approximately 1 million in 2000, 2 million in 1999 and 2 million in 1998.

Options and SARs held by the continuing employees of PAC at the time of the AirTouch Communications, Inc. (AirTouch) spinoff were supplemented with an equal number of options and SARs for common shares of spunoff operations. The exercise prices for outstanding options and SARs held by continuing employees of PAC were adjusted downward to reflect the value of the supplemental spunoff operations' options and SARs. The balance sheet reflects a related liability equal to the difference between the current market price of the spunoff operations' stock and the exercise prices of the supplemental options outstanding. The spunoff operations' options and SARs have been adjusted for Vodafone's acquisition of AirTouch and for Vodafone's five-for-one stock split in 1999. As of December 31, 2000, 227,025 supplemental spunoff operations' options and SARs were outstanding with expiration dates ranging from 2001 to 2003. Outstanding options and SARs that were held by employees of the wireless operations at the spinoff date were replaced by options and SARs for common shares of the spunoff operations. The spunoff operations assumed liability for these replacement options and SARs.

## NOTE 15. ACQUISITIONS AND DISPOSITIONS

**Acquisitions** – In August 2000, we acquired wireless properties in Seattle and Spokane, Washington and Austin, Texas from GTE Corporation for approximately \$1,349. This acquisition also included rural service areas across Texas and Washington. In total, these properties cover a population of more than 7.4 million people and include approximately 318,000 customers. These acquisitions were included in the contribution to Cingular (see Note 6).

In March 2000, we acquired Sterling, a provider of electronic business integration solutions, in an all cash tender offer valued at approximately \$3,576. We accounted for the transaction under the purchase method of accounting. The assets acquired include certain intangible assets such as developed technology, tradename, assembled workforce, customer relationships and goodwill, which will be amortized over their remaining useful lives of between 3 and 20 years. We expensed the acquired in-process research and development of approximately \$132 in March 2000.

In July 1999, we completed the acquisition of Comcast, the wireless subsidiary of Comcast Corporation, in a transaction valued at \$1.8 billion including assumption of \$1.4 billion in debt. With the acquisition, we added approximately 862,000 wireless subscribers in Pennsylvania, Delaware, New Jersey and Illinois. This acquisition was included in the contribution to Cingular (see Note 6).

In June 1999, we acquired 20% of Bell Canada, a subsidiary of BCE Inc., a publicly traded Canadian communications company, for approximately \$3,447.

In January 1998, we purchased a 34% interest in Tele Danmark, the national communications provider in Denmark, from the Kingdom of Denmark for approximately \$3.1 billion. As part of the investment agreement, Tele Danmark repurchased and retired all remaining shares owned by the Danish government, effectively increasing our equity ownership to 41.6% of Tele Danmark (see Note 7).

These acquisitions were primarily accounted for under the purchase method of accounting. The purchase prices in excess of the underlying fair value of identifiable net assets acquired are being amortized over periods not to exceed 40 years. Results of operations of the properties acquired have been included in the consolidated financial statements from their respective dates of acquisition.

**Dispositions** – Due to our wireless property contribution to Cingular in October 2000, we were required to sell our overlapping properties, which included selected Radiofone properties in New Orleans and Baton Rouge, Louisiana, and Indianapolis, Indiana, which resulted in a pre-tax gain of \$357 (see Note 6).

In August 2000, Tele Danmark and SBC sold their interests in Netcom GSM, a wireless telecommunications provider in Norway, to a third party and we recorded a direct and indirect pre-tax gain of approximately \$546.

In July 2000, we exercised our right to sell our interest in MATÁV to Deutsche Telekom, our partner in the investment, for approximately \$2,199. The transaction closed in August 2000 with a pre-tax gain of approximately \$1,153.

In October 1999, we completed the required disposition, as a condition of the merger with Ameritech, of 20 Midwestern cellular properties consisting of the competing cellular licenses in several markets, including, but not limited to, Chicago, Illinois, and St. Louis, Missouri. We recognized an extraordinary gain from these sales of approximately \$1,379, or \$0.40 per share.

During the third quarter of 1998, we sold our interest in MTN, a cellular company in South Africa, to the remaining shareholders of MTN for \$337. The sale fulfilled our obligation to divest MTN as a requirement of the acquisition of Telkom. As a result of the sale, we realized a pre-tax gain of \$250.

In April 1998, we sold substantially all of our remaining interest in TCNZ in a global stock offering. Net proceeds received in two installment payments in April 1998 and March 1999 were approximately \$2.1 billion resulting in a pre-tax gain of approximately \$1,543.

The above developments did not have a significant impact on consolidated results of operations for 2000, 1999 or 1998, nor would they had they occurred on January 1 of the respective periods.

## NOTE 16. VALUATION ADJUSTMENTS

**SecurityLink** – In December 2000, we entered into a definitive agreement to sell SecurityLink, our electronic security services operations, for \$100 in cash and \$379 in notes. The sale closed in January 2001. As a result of the sale, as well as a general decline in the market value of companies in the security industry, we reviewed the carrying value of our investment in SecurityLink. This review included estimating remaining useful lives and cash flows. As this review indicated impairment, fair market values, including in some cases discounted cash flows as an estimate of fair value, related to those assets were analyzed, as well as compared to market values of comparable publicly traded companies, to determine the amount of the impairment. As a result of this review, we recognized impairments to the carrying value of SecurityLink of approximately \$614 (\$454 net of tax) in the fourth quarter of 2000. Approximately \$430 of that charge was a write-off of goodwill.

**Prodigy** – In December 2000, we restructured our agreements with Prodigy. As part of the restructuring, we agreed to provide a \$110 credit facility to Prodigy, as well as forgive a portion of the amounts that Prodigy owed us at December 31, 2000. SBC recognized a combined charge of \$143 (\$89 net of tax) in the fourth quarter of 2000, comprised of \$110 in equity in net income of affiliates reflecting previously unrecognized equity losses from our investment in Prodigy, and the remainder as either a reduction of revenue or increase in operating expense.

**Cost Investments** – We have cost investments in alternative providers of digital subscriber line services accounted for under FAS 115. We periodically review the investments to determine whether an investment's decline in value is other than temporary. If so, the cost basis of the investment is written down to fair value which is the new cost basis. We concluded that the precipitous decline of the market values of those companies, as well as difficulties experienced by many companies in that industry, indicated the decline in value of our investments was other than temporary. As a result of these reviews, we recognized a combined charge of \$214 (\$134 net of tax) in the fourth quarter of 2000 in other income (expense) – net.

#### NOTE 17. SHAREOWNERS' EQUITY

**Share Repurchase** – From time to time, we repurchase shares of common stock for distribution, to offset shares distributed through our employee benefit plans or in connection with certain acquisitions. In January 2000, the Board of Directors approved the repurchase of up to 100 million shares of SBC common stock. As of January 31, 2001, we have repurchased a total of approximately 59 million shares of our common stock of the 100 million authorized to be repurchased.

#### NOTE 18. ADDITIONAL FINANCIAL INFORMATION

	December 31,		
	2000	1999	
<b>Balance Sheets</b>			
Intangible assets:			
Licenses	\$ 530	\$ 4,178	
Goodwill	3,947	2,269	
Customer lists	485	740	
Other	1,259	934	
	6,221	8,121	
Less: accumulated amortization	746	1,325	
Intangible assets – net	\$ 5,475	\$ 6,796	
<b>Accounts payable and accrued liabilities:</b>			
Accounts payable	\$ 5,018	\$ 4,834	
Accounts payable – Cingular	2,514	—	
Advance billing and customer deposits	1,322	1,481	
Compensated future absences	837	711	
Accrued interest	440	427	
Accrued payroll	986	800	
Other	4,315	3,464	
Total	\$15,432	\$11,717	
<b>Statements of Income</b>			
	2000	1999	1998
Advertising expense	\$ 774	\$ 812	\$ 814
Interest expense incurred	\$1,693	\$1,511	\$1,691
Capitalized interest	(101)	(81)	(86)
Total interest expense	\$1,592	\$1,430	\$1,605
<b>Statements of Cash Flows</b>			
	2000	1999	1998
Cash paid during the year for:			
Interest	\$1,681	\$1,516	\$1,713
Income taxes, net of refunds	3,120	2,638	2,676

No customer accounted for more than 10% of consolidated revenues in 2000, 1999 or 1998.

Approximately two-thirds of our employees are represented by the Communications Workers of America (CWA) and the International Brotherhood of Electrical Workers (IBEW). On February 5, 2001, our telephone subsidiaries reached four tentative agreements with the CWA covering employees in 13 states. The tentative agreements are labor contracts for three years and will replace the existing contracts that expire on March 31 and April 1, 2001. The agreements include a wage increase of approximately 12.25% over the life of the contracts, in addition to other economic provisions. The agreements must be ratified by CWA members covered by the tentative agreements and this ratification vote is expected by mid-March, 2001.

The IBEW represents approximately 12,370 employees pursuant to a labor agreement expiring on June 28, 2003. However, the wages and certain other economic matters applicable to the final two years of that agreement will be bargained prior to the end of June 2001.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

## NOTE 19. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Calendar Quarter	Total Operating Revenues	Operating Income	Net Income	Basic Earnings Per Share	Diluted Earnings Per Share	Stock Price		
						High	Low	Close
<b>2000</b>								
First	\$12,572	\$ 3,076	\$1,822	\$0.54	\$0.53	\$49.00	\$34.81	\$42.13
Second	13,211	2,998	1,851	0.54	0.54	50.00	40.44	43.25
Third	13,454	2,846	2,999	0.89	0.88	50.19	38.44	49.88
Fourth	12,239	1,823	1,295	0.38	0.38	58.50	42.63	47.75
Annual	\$51,476	\$10,743	\$7,967	2.35	2.32			
<b>1999</b>								
First	\$11,812	\$ 3,051	\$1,980	\$0.58	\$0.57	\$59.94	\$46.06	\$47.19
Second	12,268	3,227	1,938	0.57	0.56	58.00	48.00	58.00
Third	12,545	2,462	1,135	0.33	0.33	59.88	45.38	51.06
Fourth	12,906	2,858	3,106	0.91	0.90	55.50	44.06	48.75
Annual	\$49,531	\$11,598	\$8,159	2.39	2.36			

We restated the first quarter of 2000 and all four quarters of 1999 to conform with current year presentation. The first quarter of 1999 includes a cumulative effect of accounting change of \$207, or \$0.06 per share from a change in accounting for directory operations at Ameritech. The fourth quarter of 1999 includes an extraordinary gain of \$1,379, or \$0.04 per share on the sale of the overlapping wireless properties.

There were also normalizing (e.g., one-time) items which are included in the information above, but are excluded from the information that management uses to evaluate the performance of each segment of the business (see Note 8).

The quarterly impact of the 2000 normalizing items was as follows:

- Gains of \$1,699 (\$1,125 net of tax) in the third quarter related to the sale of direct and indirect investments in MATÁV and Netcom GSM, two international equity affiliates and \$187 (\$123 net of tax) in the fourth quarter from the contribution of our investment in ATL to Telecom Americas.
- Gains of \$238 (\$155 net of tax) in the third quarter on the sale of Telmex L shares associated with our private purchase of a note receivable with characteristics that will essentially offset future mark to market adjustments on the DECS.
- Pension settlement gains of \$250 (\$161 net of tax) in the first quarter, \$124 (\$80 net of tax) in the second quarter, \$29 (\$19 net of tax) in the third quarter and \$109 (\$68 net of tax) in the fourth quarter associated with pension litigation, first quarter payments primarily related to employees who terminated employment during 1999 and gains resulting from a voluntary retirement program net of enhanced pension and postretirement benefits associated with that program (see Note 12).
- Costs of \$141 (\$117 net of tax) in the first quarter, \$239 (\$153 net of tax) in the second quarter, \$400 (\$258 net of tax) in the third quarter and \$425 (\$272 net of tax) in the fourth quarter associated with strategic initiatives and other adjustments resulting from the merger integration process with Ameritech.

- A charge of \$132 (with no tax effect) in the first quarter related to in-process research and development from the March 2000 acquisition of Sterling.
- Combined charges of \$971 (\$677 net of tax) related to valuation adjustments of SecurityLink and certain cost investments accounted for under FAS 115 and the restructure of agreements with Prodigy, including the extension of a credit facility and recognition of previously unrecognized equity losses from our investment.
- Gains of \$359 (\$99 net of tax) in the fourth quarter primarily related to our required disposition of overlapping wireless properties in connection with our contribution of operations to Cingular.

The quarterly impact of the 1999 normalizing items was as follows:

- Charges of \$881 (\$883 net of tax) in the third quarter and \$885 (\$574 net of tax) in the fourth quarter including, recognition of impairment of long-lived assets, adjustments to the estimate of allowance for doubtful accounts, estimation of deferred taxes on international investments, wireless conversion costs and other items (see Note 2).
- Elimination of income of \$66 (\$39 net of tax) in the first quarter, \$50 (\$28 net of tax) in the second quarter, \$73 (\$47 net of tax) in the third quarter and \$8 (\$5 net of tax) in the fourth quarter from the incremental impacts of overlapping wireless properties required sold in October 1999 relating to the Ameritech merger.
- Pension settlement gains of \$566 (\$368 net of tax) in the fourth quarter associated with lump sum pension payments that exceeded the projected service and interest costs.
- Gains of \$131 (\$77 net of tax) in the fourth quarter recognized from the sale of property by an international equity affiliate.
- A reduction of \$45 (\$27 net of tax) in the first quarter related to a portion of a first quarter 1998 charge to cover the cost of consolidating security monitoring centers and company-owned wireless retail stores.

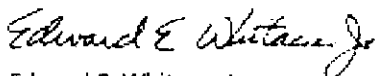
The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States. The integrity and objectivity of the data in these financial statements, including estimates and judgments relating to matters not concluded by year end, are the responsibility of management, as is all other information included in the Annual Report, unless otherwise indicated.

The financial statements of SBC Communications Inc. (SBC) have been audited by Ernst & Young LLP, independent auditors. Management has made available to Ernst & Young LLP all of SBC's financial records and related data, as well as the minutes of shareowners' and directors' meetings. Furthermore, management believes that all representations made to Ernst & Young LLP during its audit were valid and appropriate.

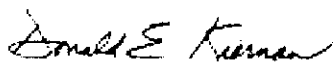
Management has established and maintains a system of internal accounting controls that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting. The concept of reasonable assurance recognizes that the costs of an internal accounting controls system should not exceed, in management's judgment, the benefits to be derived.

Management also seeks to ensure the objectivity and integrity of its financial data by the careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility and by communication programs aimed at ensuring that its policies, standards and managerial authorities are understood throughout the organization. Management continually monitors the system of internal accounting controls for compliance. SBC maintains an internal auditing program that independently assesses the effectiveness of the internal accounting controls and recommends improvements thereto.

The Audit Committee of the Board of Directors, which consists of nine directors who are not employees, meets periodically with management, the internal auditors and the independent auditors to review the manner in which they are performing their respective responsibilities and to discuss auditing, internal accounting controls and financial reporting matters. Both the internal auditors and the independent auditors periodically meet alone with the Audit Committee and have access to the Audit Committee at any time.



Edward E. Whitacre Jr.  
Chairman of the Board and  
Chief Executive Officer



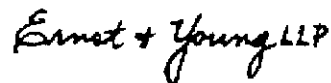
Donald E. Kiernan  
Senior Executive Vice President and  
Chief Financial Officer

The Board of Directors and Shareowners  
SBC Communications Inc.

We have audited the accompanying consolidated balance sheets of SBC Communications Inc. (the Company) as of December 31, 2000 and 1999, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the 1998 financial statements of Ameritech Corporation, a wholly owned subsidiary, which statements reflect total operating revenues constituting approximately 37% of the Company's related consolidated financial statement total for the year ended December 31, 1998. Those statements were audited by other auditors whose report has been furnished to us. Our opinion, insofar as it relates to the 1998 data included for Ameritech Corporation, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SBC Communications Inc. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.



San Antonio, Texas  
February 9, 2001

**Edward E. Whitacre Jr., 59** <sup>(2,4,5)</sup>



Chairman of the Board and Chief Executive Officer  
SBC Communications Inc.  
San Antonio, Texas

SBC Director since October 1986

Background: Telecommunications

**Gilbert F. Amelio, Ph.D., 58** <sup>(3,5)</sup>



General Partner,  
Chairman and Chief Executive Officer  
Beneventure Capital

Chairman and Chief Executive Officer

AmTech, LLC

AmTech Capital, LP

San Francisco, California

SBC Director since February 2001

Advisory Director 1997-2001

PTG Director 1995-1997

Background: Technology, electronics engineering

**Clarence C. Barksdale, 68** <sup>(1,3)</sup>



Vice Chairman,  
Board of Trustees  
Washington University  
St. Louis, Missouri

SBC Director since October 1983

SWBT Director 1982-1983

Background: Banking

**James E. Barnes, 67** <sup>(1,2)</sup>



Chairman of the Board,  
President and Chief Executive Officer (Retired)  
MAPCO Inc.

Tulsa, Oklahoma

SBC Director since November 1990

Background: Diversified energy

**August A. Busch III, 63** <sup>(2,4,6)</sup>



Chairman of the Board and President  
Anheuser-Busch Companies, Inc.

St. Louis, Missouri

SBC Director since October 1983

SWBT Director 1980-1983

Background: Brewing, family entertainment, transportation, manufacturer of aluminum beverage containers

**The Honorable**

**William P. Clark, 69** <sup>(2,3)</sup>



Senior Counsel  
Clark, Cali and Negranti,  
Attorneys at Law  
Chief Executive Officer

Clark Company

Paso Robles, California

SBC Director since April 1997

PTG Director 1985-1997

Background: Law, ranching

**Martin K. Eby Jr., 66** <sup>(1,5)</sup>



Chairman of the Board and Chief Executive Officer  
The Eby Corporation

Wichita, Kansas

SBC Director since June 1992

Background: General building construction

**Herman E. Gallegos, 70** <sup>(1,3)</sup>



Independent Management Consultant  
Brisbane, California

SBC Director since April 1997

PTG Director 1983-1997

Background: Management consulting

**Jess T. Hay, 70** <sup>(1,6)</sup>



Chairman  
HCB Enterprises Inc  
Chairman  
Texas Foundation for Higher Education

Dallas, Texas

SBC Director since April 1986

Background: Financial services

**James A. Henderson, 66** <sup>(1,5)</sup>



Retired Chairman and Chief Executive Officer  
Cummins Engine Company, Inc.

Columbus, Indiana

SBC Director since October 1999

AIT Director 1983-1999

Background: Manufacturing

**Admiral Bobby R. Inman, 69** <sup>(5,6)</sup>



United States Navy,  
Retired  
Austin, Texas  
SBC Director since March 1985

Background: Private investment

**Charles F. Knight, 65** <sup>(2,4,5)</sup>



Chairman of the Board  
Emerson Electric Co.  
St. Louis, Missouri

SBC Director since

October 1983

SWBT Director 1974-1983

Background: Electrical manufacturing

**Lynn M. Martin, 61** <sup>(3,5)</sup>



Chair of the Council for the Advancement of Women  
Advisor to the Firm

Deloitte & Touche LLP

Professor

J.L. Kellogg Graduate School

of Management

Northwestern University

Chicago, Illinois

SBC Director since October 1999

AIT Director 1993-1999

Background: Consulting, former Congresswoman and Secretary of Labor

**John B. McCoy, 57** <sup>(2,6)</sup>



Retired Chairman and Chief Executive Officer  
BANK ONE CORPORATION  
Columbus, Ohio

SBC Director since October 1999

AIT Director 1991-1999

Background: Banking

**Mary S. Metz, Ph.D., 63** <sup>(1,3)</sup>



President  
S. H. Cowell Foundation  
San Francisco, California  
SBC Director since April 1997

PTG Director 1986-1997

Background: Education, administration

**Toni Rembe, Esq., 64** <sup>(2,3)</sup>



Partner  
Pillsbury Winthrop LLP  
San Francisco, California  
SBC Director since January 1998

Advisory Director 1997-1998

PTG Director 1991-1997

Background: Law

**S. Donley Ritchey, 67** <sup>(5,6)</sup>



Managing Partner  
Alpine Partners  
Chairman and Chief Executive Officer  
(Retired)

Lucky Stores, Inc.

Danville, California

SBC Director since April 1997

PTG Director 1984-1997

Background: Diversified retail

**Joyce M. Roché, 53** <sup>(1,3)</sup>



President and Chief Executive Officer  
Girls Incorporated  
New York, New York

SBC Director since

October 1998

SNET Director 1997-1998

Background: Marketing

**Ing. Carlos Slim Helú, 61** <sup>(3,5)</sup>



Chairman of the Board  
Carso Global Telecom,  
S.A. de C.V.

Chairman of the Board

Teléfonos de México, S.A. de C.V.

Mexico City, Mexico

SBC Director since September 1993

Background: Telecommunications, consumer goods, automobile parts, construction, retailing

**Dr. Laura D'Andrea Tyson, 53** <sup>(1,5)</sup>



Dean  
Walter A. Haas School of Business  
University of California, Berkeley

Berkeley, California

SBC Director since October 1999

AIT Director 1997-1999

Background: Economics, education

**Patricia P. Upton, 62** <sup>(3)</sup>



President and Chief Executive Officer  
Aromaticque, Inc.  
Heber Springs, Arkansas

SBC Director since June 1993

Background: Manufacturing and marketing of decorative home fragrances

**Committees of the Board:**

- (1) Audit
- (2) Corporate Development
- (3) Corporate Public Policy and Environmental Affairs
- (4) Executive
- (5) Finance/Pension
- (6) Human Resources

# EXECUTIVES OF SBC AND ITS SUBSIDIARIES

## SBC Senior Executives

**Edward E. Whitacre Jr., 59**  
Chairman & CEO  
SBC Communications Inc.

**James W. Callaway, 54**  
Group President  
SBC Communications Inc.

**Cassandra C. Carr, 56**  
Sr. Executive Vice President-External  
Affairs  
SBC Communications Inc.

**James D. Ellis, 57**  
Sr. Executive Vice President & General  
Counsel  
SBC Communications Inc.

**Charles E. Foster, 64**  
Group President-SBC National Operations  
SBC Communications Inc.

**Ross K. Ireland, 54**  
Sr. Executive Vice President-Services  
SBC Communications Inc.

**Karen E. Jennings, 50**  
Sr. Executive Vice President-Human  
Resources  
SBC Communications Inc.

**James S. Kahan, 53**  
Sr. Executive Vice President-Corporate  
Development  
SBC Communications Inc.

**Donald E. Kiernan, 60**  
Sr. Executive Vice President and CFO  
SBC Communications Inc.

**Forrest E. Miller, 48**  
President and CEO-SNET  
SBC Communications Inc.

**Linda S. Mills, 49**  
Sr. Executive Vice President-Corporate  
Communications  
SBC Communications Inc.

**Edward A. Mueller, 53**  
President and CEO-Ameritech  
SBC Communications Inc.

**Stanley T. Sigman, 53**  
President and CEO-Southwestern Bell  
SBC Communications Inc.

**Rayford Wilkins Jr., 49**  
President and CEO-Pacific Bell/Nevada Bell  
SBC Communications Inc.

## Other Executives

**Clifford Agee, 43**  
Vice President-Operations,  
ASI North/Northeast

**Wayne S. Alexander, 52**  
President-Southwestern Bell

**John H. Atterbury III, 52**  
President-SBC Advanced Solutions Inc.

**Terry D. Bailey, 44**  
President-Southwestern Bell Business  
Communications Services

**Thomas M. Barry, 56**  
President-SBC International  
(Telkom S. Africa)

**William A. Blase Jr., 45**  
President-Pacific Bell

**Cynthia J. Brinkley, 41**  
President-Arkansas

**Louis R. Casali, 49**  
Vice President-Operations, ASI West

**Margaret M. Cerrudo, 52**  
Senior Vice President-HR Services

**Lea Ann Champion, 42**  
President-SBC Telecom (National/Local)

**Frederick R. Chang, 45**  
President and CEO-SBC Technology  
Resources Inc.

**David A. Cole, 53**  
President-Southwestern Bell Consumer  
Markets

**Catherine M. Coughlin, 43**  
President-Ameritech Consumer Markets

**Neil E. Cox, 51**  
President-SecurityLink

**Patricia Diaz Dennis, 54**  
Senior Vice President-Regulatory & Public  
Affairs

**Richard C. Dietz, 54**  
President-SBC Enterprises

**Patricia A. Engels, 50**  
President and CEO-SBC Directory  
Operations

**James M. Epperson Jr., 45**  
President-Oklahoma

**Melanie S. Fannin, 50**  
Senior Vice President, General Counsel  
and Secretary-Pacific Bell

**Robert E. Ferguson, 41**  
President-Pacific Bell Business  
Communications Services

**George S. Fleetwood, 47**  
President-Ameritech Indiana

**Andrew M. Geisse, 44**  
Vice President-Enterprise Software  
Solutions

**Michael N. Gilliam, 48**  
Vice President-Long Distance  
Compliance Relief

**Edward L. Giotzback, 52**  
Executive Vice President & Chief  
Information Officer

**Ynocencio Gonzalez, 43**  
Vice President-SBC Network Operations

**Michael Hamilton, 45**  
President-Ameritech Business  
Communications Services

**Timothy S. Harden, 47**  
Vice President-Network & Operations,  
SBC Telecom

**Dennis O. Harris, 57**  
Senior Vice President-Ameritech  
Network Services

**Priscilla Hill-Ardoin, 49**  
Senior Vice President-FCC

**Mark A. Keiffer, 40**  
President and CEO-Sterling Commerce

**Gary F. Kitchens, 53**  
President-Ameritech Network Services

**Jonathan P. Klug, 45**  
Chief Financial Officer-Bell Canada

**Paul V. LaSchiavza, 43**  
Vice President-SBC Regulatory

**Linda S. Legg, 50**  
Vice President & General Counsel-  
SBC Directory Operations

**Marsha J. Lindsey, 49**  
President-Nevada Bell

**David R. Lopez, 49**  
President-Texas

**Gary W. Lucas, 56**  
Senior Vice President-Labor Relations

**Robert M. Lynch, 50**  
Senior Vice President & General Counsel-  
Business & Consumer Markets

**Robin G. MacGillivray, 46**  
Vice President-Pacific Bell Business  
Communications Services

**Paul K. Mancini, 54**  
Vice President & Assistant General  
Counsel-Corporate

**Mary T. Manning, 50**  
Senior Vice President-Corporate  
Real Estate

**Norma Martinez Lozano, 44**  
President-SBC Operator Services

**Wayne D. Masters, 55**  
Senior Vice President-Network Engineering  
and Planning, ASI

**William B. McCullough, 49**  
Senior Vice President-Finance  
(International)

**Shawn M. McKenzie, 42**  
President-Kansas

**Melba Muscarolas, 39**  
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**Wayne Watts, 47**  
Vice President and Assistant General  
Counsel-Corporate

**Stephen G. Welch, 57**  
President-Procurement

## SHAREOWNER INFORMATION

### **Toll-Free Shareowner Hotline**

Call us at 1-800-351-7221 between 8 a.m. and 7 p.m. Central Time Monday through Friday. TDD 1-888-403-9700  
For help with:

- Account inquiries
- Requests for assistance, including stock transfers
- Information on The DirectSERVICE™ Investment Program for Shareholders of SBC Communications Inc. (sponsored and administered by First Chicago Trust Company of New York)

### **Written Requests**

Please mail all account inquiries and other requests for assistance regarding to your stock ownership to:

SBC Communications Inc.  
c/o First Chicago Trust Company of  
New York  
P. O. Box 2508  
Jersey City, New Jersey 07303-2508

Please mail requests for transactions involving stock transfers or account changes to:

SBC Communications Inc.  
c/o First Chicago Trust Company of  
New York  
P. O. Box 2589  
Jersey City, New Jersey 07303-2589

You also may reach First Chicago Trust Company of New York, the Transfer Agent for SBC, at their e-mail address: [sbcfct@equiserve.com](mailto:sbcfct@equiserve.com)

### **The DirectSERVICE™ Investment Program for Shareowners of SBC Communications Inc. (sponsored and administered by First Chicago Trust Company of New York)**

The DirectSERVICE Investment Program for shareowners of SBC Communications Inc. is sponsored and administered by First Chicago Trust Company of New York. The Program allows current shareowners to reinvest dividends, purchase additional SBC stock or enroll in an Individual Retirement Account.

For more information, call 1-800-351-7221.

### **Stock Trading Information**

SBC is listed on the New York, Chicago and Pacific stock exchanges as well as The Swiss Exchange. SBC is traded on the London Stock Exchange through the SEAQ International Markets facility.

Ticker symbol (NYSE): SBC

Newspaper stock listing: SBC or SBC Comm

### **Information on the Internet**

Information about SBC is available on the Internet. Visit our home page on the World Wide Web:  
<http://www.sbc.com>

### **Annual Meeting**

The annual meeting of shareowners will be held at 9:00 a.m. Friday, April 27, 2001, at:

Alzafar Shrine Temple  
901 North Loop 1604 West  
San Antonio, Texas 78216

### **Independent Auditor**

Ernst & Young LLP  
1900 Frost Bank Tower  
100 W. Houston  
San Antonio, Texas 78205

### **Requests for 10-K**

The SBC Form 10-K, filed with the Securities and Exchange Commission, is available in paper form by request and also is available on our home page on the World Wide Web:  
<http://www.sbc.com>

### **Investor Relations**

Securities analysts and other members of the professional financial community may call the Investor Relations Hotline: 210-351-3327

### **General Information – Corporate Offices**

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